

Message Text

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SUBJECT: EAST ASIAN ECONOMIC POLICY REVIEW

REF: 77 STATE 299030

1. FOLLOWING IS FIRST INSTALLMENT OF OUR CONTRIBUTION TO
SUBJECT REVIEW AND DEALS WITH BROAD THRUST OF U.S. ECONOMIC
AND COMMERCIAL INTERESTS IN INDONESIA.

2. INTRODUCTION: OUR INTERESTS HERE RANGE FROM DIPLOMATIC
EFFORTS TO INFLUENCE, MODERATE, AND MONITOR INDONESIAN ATTITUDES
ON FULL RANGE OF MAJOR INTERNATIONAL ECONOMIC ISSUES TO DAY-
TO-DAY OPERATIONAL PROBLEMS IN ASSISTING AMERICAN BUSINESS
COMMUNITY. OUR ROLE HAS TAKEN ON NEW DIMENSIONS AS RESULT OF
INDONESIA'S GROWING ROLE OF INFLUENCE IN INTERNATIONAL ECONOMIC
SCENE. NORTH-SOUTH RELATIONSHIPS THUS HAVE BECOME KEY ELEMENT
AND VIRTUALLY EVERY ONE OF OUR OBJECTIVES ARE TO SOME DEGREE
AFFECTED BY DEVELOPMENTS IN THIS RELATIONSHIP. EFFECTIVENESS
OF U.S. ROLE HERE IS INFLUENCED BY INDONESIAN ATTITUDES
AND PERCEPTIONS IN FOLLOWING AREAS, NONE OF WHICH ARE
MUTUALLY EXCLUSIVE: (A) CRUSADE TO ESTABLISH A "NEW
INTERNATIONAL ECONOMIC ORDER"; (B) NATIONALISM VERSUS
THE FOREIGN ECONOMIC PRESENCE; (C) INDONESIA'S DEVELOP-
MENT STRATEGY AND REQUIREMENTS; AND (D) THE NEW U.S.-
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ASEAN RELATIONSHIP.

3. A "NEW INTERNATIONAL ECONOMIC ORDER": INDONESIA'S
CONSIDERABLE INFLUENCE ON INTERNATIONAL ECONOMIC STAGE
PRESENTS BOTH PROBLEMS AND OPPORTUNITIES. INDONESIA
TENDS TO TAKE MODERATE APPROACH TO KEY NORTH-SOUTH AND
OPEC ISSUES, BUT AS A LEADER OF G-77 IT IS FREQUENTLY

PRONE TO TAKE HARD LINE IN ORDER STRENGTHEN ITS IMAGE AMONG LDCS. AT SAME TIME INDONESIA'S DOMESTIC ECONOMIC ACTIONS ARE CONDITIONED AND/OR INFLUENCED BY THIRD WORLD POLICIES, ESPECIALLY WHEN THESE ARE CONSISTENT WITH INDONESIA'S OWN NATIONAL ASPIRATIONS. THEREFORE, THEIR PERCEPTION OF U.S. ECONOMY AND EXPECTATIONS OF WHAT WE SHOULD OR CAN DO FOR THEM ARE INFLUENCED BY RESPONSES THEY RECEIVE FROM US IN THE MANY FORA DEALING WITH THIRD WORLD ISSUES, SUCH AS COMMON FUND, MTN, DEVELOPMENT COMMITTEE OF THE IMF/IBRD, AND IN U.S.-ASEAN DIALOGUE. EXPRESSIONS OF GOOD INTENTIONS ON OUR PART, ALTHOUGH HELPFUL IN A PURELY DIPLOMATIC AND PSYCHOLOGICAL SENSE, WILL NOT SUFFICE. THEY EXPECT CONCRETE ACTIONS AND NOT ONLY WORDS.

4. NATIONALISM VERSUS THE FOREIGN ECONOMIC PRESENCE: INCREASINGLY INDONESIA IS EMPHASIZING INDONESIANIZATION OF ALL ECONOMIC ACTIVITIES. THE "LET'S DO IT OURSELVES" THEME PERMEATES NEW POLICIES AND PLANS AS WELL AS THE INTERPRETATION OF THEIR OLD LAWS AND RULES. WHILE THIS DOES NOT MEAN THAT DOORS ARE CLOSED TO FOREIGN INVESTORS, BUSINESSMEN AND BANKERS, IT DOES IMPOSE CONSIDERABLE CONSTRAINTS ON AMERICAN PRIVATE SECTOR INTERESTS. CENTRAL ISSUE IS THAT INDONESIAN POLICY-MAKERS ARE STRUGGLING TO FIND AN APPROPRIATE BALANCE BETWEEN THOSE INCENTIVES NECESSARY TO INDUCE FOREIGN INVESTMENT AND

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THE INTERNAL, NATIONALISTIC PRESSURES TO ASSURE ADEQUATE RETURN TO THE INDONESIAN ECONOMY, CONSISTENCY OF THE INVESTMENT WITH COUNTRY'S DEVELOPMENT OBJECTIVES, AND STRONG DESIRE FOR DEVELOPING AN INDONESIAN ENTREPRENEURIAL CLASS. IF OUR PRIVATE ECONOMIC PRESENCE HERE INCREASES, IT WILL BE AT A MUCH MORE MODERATE PACE THAN IN THE PAST. OUR PRINCIPAL OBJECTIVE SHOULD BE TO KEEP DOORS OPEN FOR BOTH PRIVATE AND OFFICIALS INTERESTS (INCLUDING AID) AND TO INFLUENCE THE INDONESIANS TO MAINTAIN AND IMPROVE CLIMATE DODUCIVE TO OUR PRIVATE SECTOR AND DEVELOPMENTAL INTERESTS.

5. DEVELOPMENT STRATEGY AND REQUIREMENTS: OUR OFFICIAL AND PRIVATE SECTOR INTERESTS ARE AFFECTED DIRECTLY OR INDIRECTLY BY STRATEGY PURSUED BY GOI IN CHARTING ITS DEVELOPMENT PROGRAMS. GOI DEVELOPMENT STRATEGY AND PLANNING ARE DETERMINING FACTORS IN ITS ATTITUDES TOWARDS FOREIGN PARTICIPATION (BOTH PRIVATE AND OFFICIAL) IN REPELITA (FIVE-YEAR DEVELOPMENT PROGRAM) AND TOWARDS IMPORTS FROM ABROAD. EMPHASIS ON MAXIMIZING INDONESIAN CONTENT (MATERIAL AND MANAGERIAL) IMPACTS ON EVERYTHING FROM APPROVAL OF LARGE OR SMALL PROJECTS TO ISSUANCE

OF WORK PERMITS TO EXPATRIATES. INDONESIA'S PENCHANT TO RUN THEIR OWN SHOW IN COORDINATING AID FLOWS LIMITS DEGREE OF INFLUENCE WE CAN EXERT. THE IGGI CLEARLY REMAINS CENTRAL, ALBEIT LOOSE, COORDINATING MECHANISM FOR TRANSFER OF CAPITAL, KNOW-HOW AND TECHNOLOGY FOR THESE TRANSFERS, INCLUDING SUPPLIER CREDITS. WHILE IGGI HAS BEEN EFFECTIVE IN STIMULATING BETTER AID PERFORMANCE BY DONORS, ITS INFLUENCE IN BRINGING ABOUT REFORMS IN SENSITIVE AREAS SUCH AS TAXATION AND CORRUPTION HAS BEEN LIMITED. THERE ARE SOME INDICATIONS THAT BECAUSE OF PRESSURE OF AGRICULTURAL AND FOOD PROBLEMS GOI MAY BE PREPARED TO ACCEPT A LARGER ROLE FOR IGGI IN ASSISTING GOI IN CHARTING AND COORDINATING PROGRAMS AND POLICIES. MAIN THRUST OF U.S. POLICY SHOULD BE TO SUPPORT ALL

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EFFORTS TO STRENGTHEN IGGI INFLUENCE TO EFFECT BETTER GOI ADMINISTRATIVE AND COORDINATING PERFORMANCE.

6. NEW U.S. ASEAN-RELATIONSHIP: INDONESIA LOOKS TO NEWLY EVOLVING U.S. RELATIONSHIP WITH ASEAN AS OPPORTUNITY TO ACCOMPLISH SOME OF ITS ECONOMIC OBJECTIVES, PARTICULARLY THOSE IN WHICH IT FEELS THAT BILATERAL TIES WITH US. ARE NOT SUFFICIENT. THIS RELATES PRIMARILY TO NORTH-SOUTH ISSUES BUT ALSO TO DEVELOPMENT AND INVESTMENT COOPERATION AND PROMOTION OF TRADE. ALTHOUGH GOI'S PRESENT EXPECTATIONS FOR MAJOR U.S. CAPITAL INPUTS TO ASEAN ARE NOT TOO GREAT, THEY DO ANTICIPATE CONSIDERABLE U.S. CONTRIBUTIONS IN FIELDS OF TECHNICAL ASSISTANCE, TRAINING, AND TECHNOLOGY TRANSFER OVER AND ABOVE ASSISTANCE RECEIVED FROM IGGI DONORS. THEY ALSO HOPE TO USE NEW RELATIONSHIP TO BUILD BRIDGES BETWEEN RESPECTIVE ASEAN PRIVATE SECTORS AND U.S. COMMERCIAL COMMUNITY.

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7. IMPLICATIONS FOR U.S. POLICIES: OUR INTERESTS HERE
STOULD CONTINUE TO BE FOCUSED ON KEEPING INDONESIAN
DOORS OPEN TO OUR OFFICIAL AND PRIVATE SECTOR OBJECTIVES.
EFFECTIVE DIPLOMATIC ACCESS TO ECONOMIC LEADERSHIP IS
OF KEY SIGNIFICANCE IN VIEW OF GOI'S SUBSTANTIAL ROLE
AND INFLUENCE IN INTERNATIONAL FORA. EDUCATIONAL TIES
OF TECHNOCRATS TO U.S. AND WIDJOJO'S PERSONAL RELATION-
SHIP TO KEY OFFICIALS IN NEW ADMINISTRATION HAVE HELPED
IN KEEPING CHANNELS OPEN. FURTHER TRAINING IN U.S. TO
HELP CREATE NEW GENERATION OF TECHNOCRATS WOULD SERVE
BOTH OUR SHORT AND LONG TERM INTERESTS.

8. AS NOTED ABOVE, IGGID SHOULD CONTINUE AS KEY MECHANISM
IN INFLUENCING DEVELOPMENT STRATEGY. CLOSE COORDINATION
WITH OTHER DONOR COUNTRIES AND WORLD BANK MAY BEAR FRUIT
IN BRINGING ABOUT IMPORTANT REFORMS AND TO PROVIDE TRAINING
IN THE WHOLE SPECTRUM OF DEVELOPMENT AND MANAGEMENT
NECESSARY TO BRING INDONESIA TO A "TAKE-OFF" STAGE.

9. WE SHOULD CONTINUE TO ASSURE ACCESS TO THE COUNTRY'S
NATIONAL RESOURCES, INCLUDING OIL, ON TERMS ACCEPTABLE

TO US AND TO THE INDONESIANS. SIMILARLY WE SHOULD SEEK
EQUAL OPPORTUNITIES FOR TRADE ON BILATERAL LEVEL AS
WELL AS THROUGH MULTILATERAL INSTRUMENTALITIES SUCH AS
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GATT AND MTN.

10. THROUGH QUIET DIPLOMACY WE SHOULD ATTEMPT TO
INFLUENCE INDONESIAN DECISION-MAKERS IN IMPROVING
SOMEWHAT UNCERTAIN CLIMATE FOR OUR INVESTORS AND
TRADERS.
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